

DENMARK

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

| | 1996 | 1997 | 1998 | 1/ |
|---|---------|---------|---------|----|
| <i>Income, Production and Employment:</i> | | | | |
| Nominal GDP 2/ | 157,862 | 145,280 | 148,800 | |
| Real GDP Growth (pct) 2/ 3/ | 2.8 | 3.1 | 2.5 | |
| GDP by Sector 2/: | | | | |
| Agriculture | 5,655 | 4,871 | 5,000 | |
| Manufacturing | 27,828 | 25,174 | 25,800 | |
| Services | 72,672 | 66,899 | 68,500 | |
| Government | 36,958 | 33,434 | 34,100 | |
| Per Capita GDP (US\$) 2/ | 30,003 | 27,493 | 28,075 | |
| Labor Force (000s) | 2,833 | 2,866 | 2,880 | |
| Unemployment Rate (pct) | 8.7 | 7.7 | 6.4 | |
| <i>Money and Prices (annual percentage growth):</i> | | | | |
| Money Supply Growth (pct) | 7.2 | 5.2 | 4.2 | |
| Consumer Price Inflation (pct) | 2.1 | 2.2 | 1.8 | |
| Exchange Rate (DKK/US\$ annual average) | | | | |
| Official | 5.80 | 6.61 | 6.70 | |
| <i>Balance of Payments and Trade:</i> | | | | |
| Total Exports FOB 4/ | 51,014 | 48,732 | 49,000 | |
| Exports to U.S. 4/ | 2,064 | 2,231 | 2,100 | |
| Total Imports CIF 4/ | 44,974 | 44,432 | 46,000 | |
| Imports from U.S. 4/ | 2,168 | 2,241 | 2,350 | |
| Trade Balance 4/ | 6,040 | 4,300 | 3,000 | |
| Balance with U.S. 4/ | -104 | -10 | -250 | |
| External Public Debt | 43,621 | 40,544 | 41,000 | |
| Fiscal Deficit/GDP (pct) 5/ | 0.9 | -0.2 | -0.9 | |
| Current Account Surplus/GDP (pct) 5/ | 1.7 | 0.6 | -0.8 | |
| Debt Service Payments/GDP (pct) 5/ | 2.3 | 2.0 | 2.0 | |
| Gold and Foreign Exchange Reserves | 14,692 | 19,620 | 15,000 | |
| Aid From U.S. | N/A | N/A | N/A | |
| Aid From Other Sources | N/A | N/A | N/A | |

- 1/ 1998 figures are all estimates based on available data as of November.
- 2/ GDP measured as "Gross Value Added by Industry."
- 3/ Percentage changes calculated in local currency.
- 4/ Merchandise trade (excluding EU agricultural export subsidies).
- 5/ Gross Domestic Product.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It also has an efficient and well-educated labor force, and a modern infrastructure effectively linking Denmark with the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy.

The Danish economy is strong, with a public budget surplus, and low inflation. However, its extensive foreign trade makes the economy vulnerable to foreign "shocks," including the present Asian and Russian financial crises. Of particular concern is the collective impact on Danish agricultural exports. As a result, the recurring Danish balance of payments surplus since 1990 shifted to a deficit in 1998. The government pursues a carefully monitored economic policy including a fiscal policy of minimum public expenditure increases and a tight monetary and exchange rate policy.

Developments during 1998 in some key economic indicators -- continued high private consumption and the deficit on the balance of payments -- are warning signals for the otherwise strong economy. The positive balance of payments has been particularly important in sustaining foreign confidence in the Danish economy. With the aim of restoring a balance of payments surplus, the government in 1998 introduced new measures to curb private consumption, mostly by reducing tax credits for debt interest payments in order to discourage new loan taking. In addition, the measures are aimed at increasing the incentive to work for low income earners by reducing taxation in the middle bracket of the progressive income tax system. The surplus in the public budget increased in 1998 to one percent of GDP, not least as a result of the sale of the government's holdings in the national telecommunication company to the U.S. company Ameritech, combined with reduced expenditures for unemployment and other transfer income costs.

Denmark welcomes foreign investment, and is home to roughly 250 subsidiaries of U.S. companies. Denmark also welcomes foreign firms focused on doing business in the former East Bloc countries. In that respect, Denmark has a number of preferential joint venture investment and investment guarantee programs and also makes available Danish and EU grants for improving the environment in those countries. A number of leading Danish and American firms in Denmark are members of the newly established Danish-American Business Forum which aims at promoting direct investments and exchange of know-how.

Danish monetary policy puts a high priority on price stability. Denmark has pursued a fixed exchange rate policy since the early 1980's. This policy, and Denmark's full liberalization of capital movements since 1988, leaves the Danish Central Bank limited room to adopt independent interest rate and liquidity policies. Danish monetary policy is at present linked closely to that of Germany, and on January 1, 1999 to the new European Central Bank.

Denmark has opted out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy), although the country's economic performance exceeds the established convergence criteria for membership.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). Since the early 1980s, the government has pursued a firm exchange rate policy by linking the krone closely to the German Mark. On January 1, 1999, when the joint EU currency -- the euro -- materializes, the krone (through the ERM2) will be linked closely to that currency. In August 1998, the trade-weighted value of the krone was 3.5 percent higher than in August 1997, due mostly to the krone's appreciation against the Swedish Krone and the yen. During the first eight months of 1998, the krone/dollar rate was rather stable, but since September, the krone has appreciated some seven percent against the dollar (from DKK 6.81 to DKK 6.30 to \$1.00). The low dollar rate is not yet reflected in increased U.S. exports to Denmark.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by the government's Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle.

The highest marginal individual income tax rate is over 62 percent, and applies to all taxpayers with earnings exceeding some \$37,500 (1998). Foreign executives and researchers working in Denmark on a contract may for a period of up to five years benefit from more lenient income taxation (a flat 33 percent tax on gross income). Danish employers are almost alone in the EU in paying virtually no non-wage compensation. Most sick leave and unemployment insurance costs are paid by the government. Employees pay their contribution to unemployment insurance out of their wages, while around two-thirds of unemployment benefits are paid from general revenues.

The Danish Value Added Tax (VAT), at 25 percent, is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise VAT rates of other EU countries.

Environmental taxes are increasingly being imposed on industry (with some roll-back for anti-pollution efforts) and on consumers. The corporate tax rate is 34 percent and favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Denmark has run a balance of payments surplus from 1990 to 1997. Consequently, foreign debt has gradually fallen from over 40 percent of GDP in 1990 to 24 percent in 1997. Net interest payments on the debt in 1997 cost Denmark six percent of its export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and Aa1, respectively.

Denmark's public sector is a net external debtor, while the private sector is a net creditor. At the end of 1997, the government sector's net foreign debt, including foreign exchange reserves, totaled a value of \$37 billion, equal to 85 percent of the value of krone-denominated government bonds held abroad.

During 1997, central government debt denominated in foreign currencies rose slightly to \$16 billion at the end of the year. Of the total debt, 84 percent is denominated in German Marks, four percent in Swiss Francs, and 1.5 percent in dollars. The debt has an average term of 2.3 years.

Denmark's central government deficits are not monetized, but instead financed through sale of government bonds and treasury bills on market terms. The monetary policy instruments used by the central bank to manage liquidity are certificates of deposit, repurchase agreements (so-called "repos") and current account deposits. The central bank issues two-week deposit certificates each week to absorb liquidity and re-purchases both treasury bills and deposit certificates in order to supply liquidity to commercial banks.

For a number of years, the central bank has successfully used small interest rate adjustments of between 0.25 and 0.5 percent to control liquidity. On November 1, 1998, the official discount rate stood at 4.25 percent.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark adheres to all GATT/WTO codes and to all EU legislation which impacts on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

As standards are being harmonized within the EU Single Market, new non-tariff trade barriers (NTBs) have surfaced in individual EU member countries. As Danish firms have found it difficult to win bids on government procurement contracts in other EU countries, Denmark has taken the lead within the EU to work with the European Commission to combat these problems.

The Ministry of Business and Industry's National Agency for Trade and Industry and Danish Competition Agency assist Danish firms facing nontariff trade barriers.

Denmark provides national and, in most cases, non-discriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a "carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (non-EU citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share -- about 20 percent -- and exercise significant control over the ship or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. Two U.S. banks -- Republic National Bank of New York and the State Street Bank Trust Company -- have representative offices in Denmark. A number of other U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its UK subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the UK).

The government liberalized the Danish telecommunications sector in 1997. The large U.S. company Ameritech took over a controlling interest (42 percent) of the former government-controlled Tele Danmark A/S in October 1997. A number of foreign telecom operators, including Swedish Telia and French Mobilix, are making inroads into the Danish market, which has increased competition. Sonofon, a private cellular mobile telephone network with U.S. Bell South participation, competes with Tele Danmark in that area.

Danish government procurement practices meet the requirements of the GATT/WTO Public Procurement Code and EU public procurement legislation. Denmark has implemented all EU government procurement directives. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the government and its entities apply environmental and energy criteria on an equal basis with other -- price, quality and delivery -- terms in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export subsidies to Denmark totaled \$432 million (some five percent of the value of total Danish agricultural exports) in 1997. Government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its non-agricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally and still hopes for U.S. ratification.

The government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs which indirectly assist export promotion and establishment of export networks for small and medium sized companies, research and development, and regional development aimed at increasing exports. Denmark has one of the EU's lowest rates of state aid to industry (less than two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms which produce in and export from Denmark.

7. Protection of U.S. Intellectual Property

Denmark is a party to and enforces a large number of international conventions and treaties concerning protection of intellectual property rights, including the WTO's TRIPS Agreement.

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation. Denmark strongly supports efforts to establish an EU-wide trademark system. Following a European Court decision in 1998 that "regional trademark consumption" applies within the EU, Denmark is stopping using the "global consumption principle." Denmark has enacted legislation implementing EU regulations for the protection of the topography of semiconductor products, which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over \$100 million annually.

Piracy of other intellectual property, including books, appears limited. There is no evidence of Danish import or export of pirated products.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Denmark is named on the "Special 301" Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. The issue is the subject of bilateral U.S./Danish consultations, and the Danish Government has created a committee to find out which legislative changes are needed to meet its TRIPS obligations. The United States is also concerned about Denmark's failure to protect, as required by article 39.3 of the TRIPS agreement, confidential test data submitted to the Danish Environmental Protection Agency for approval of certain chemical products.

A U.S. producer of a cancer drug faced a similar problem stemming from the marketing of a generic Dutch drug. Denmark acknowledged the Dutch approval under EU mutual recognition rules; however, a Dutch court ruled that the approval of the competing drug violates the TRIPS Agreement. Danish authorities removed the Dutch-made drug from the Danish market as of December 31, 1998 to resolve the case. Finally, U.S. authors are not receiving royalties from Denmark for photocopying of their works used in Danish schools and universities, because the Danish collecting agency COPYDAN will not accept the validity of "en bloc" powers of attorney issued by U.S. publisher and author organizations. This issue is also being pursued with the Danish Government.

8. Worker Rights

a. Right of Association: Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. During 1997, 101,700 workdays were lost due to labor conflicts compared with 75,700 in 1995. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. Right to Organize and Bargain Collectively: Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. The law prohibits antiunion discrimination by employers against union members, and there are mechanisms to resolve

disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial (the industry sector) negotiations between the various employers' associations and their union counterparts. If negotiations fail, a National Conciliation Board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts which result from collective bargaining are, as a general rule, also used as guidelines in the non-union sector.

Labor relations in non-EU parts of Denmark -- Greenland and the Faroe Islands -- are generally conducted in the same manner as in Denmark.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited and does not exist in Denmark.

d. Minimum Age for Employment of Children: The minimum age for full-time employment is 15 years. Denmark has implemented EU Council Directive 94/33/EU, which tightened Danish employment rules for those under 18 years of age, and set a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. Acceptable Conditions of Work: There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement is equal to about \$11 per hour. Danish law provides for five weeks of paid vacation each year. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas the workweek is 40 hours. Unemployment benefits in Greenland are either contained in labor contract agreements or come from the general social security system. A general unemployment insurance system in the Faroe Islands has been in force since 1992. Sick pay and maternity pay, as in Denmark, fall under the social security system.

f. Rights in Sectors with U.S. Investment: Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in other sectors.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

| Category | Amount |
|------------------------------------|--------------|
| Petroleum | 404 |
| Total Manufacturing | 575 |
| Food & Kindred Products | 143 |
| Chemicals & Allied Products | (1) |
| Primary & Fabricated Metals | (1) |
| Industrial Machinery and Equipment | -3 |
| Electric & Electronic Equipment | 175 |
| Transportation Equipment | -6 |
| Other Manufacturing | (1) |
| Wholesale Trade | 701 |
| Banking | (2) |
| Finance/Insurance/Real Estate | (1) |
| Services | 42 |
| Other Industries | (1) |
| TOTAL ALL INDUSTRIES | 2,576 |

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.